

CANADA MALTING CO.  
LIMITED



ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 1976



# **CANADA MALTING CO., LIMITED**

## *Board of Directors*

NIGEL B. BAIRD  
STANTON J. BURKETT  
HARRY F. GRAESSER  
JAMES C. GRANT  
W. DOUGLAS HATCH

LEONARD G. LUMBERS  
ROBERT J. D. MARTIN  
WALLACE F. READ  
GEORGE H. SELLERS  
REGINALD J. THOMAS

## *Honorary Director*

GORDON McMILLAN, Q.C.

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## *Officers*

HARRY F. GRAESSER . . . . .	PRESIDENT AND CHIEF EXECUTIVE OFFICER
REGINALD J. THOMAS . . . . .	EXECUTIVE VICE-PRESIDENT
STANTON J. BURKETT . . . . .	VICE-PRESIDENT SALES
CHARLES T. CLEGG . . . . .	SECRETARY
GORDON J. CATER . . . . .	TREASURER
JAMES C. GRANT . . . . .	GENERAL MANAGER

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## *Head Office* TORONTO - ONTARIO

### *Malthouses and Elevators*

MONTRÉAL, QUEBEC	- -	WINNIPEG, MANITOBA
TORONTO, ONTARIO	- -	CALGARY, ALBERTA
		THUNDER BAY, ONTARIO

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### *Transfer Agent*

CANADA PERMANENT TRUST COMPANY  
TORONTO, ONTARIO - - MONTREAL, QUEBEC  
CALGARY, ALBERTA

### *Registrar*

MONTREAL TRUST COMPANY  
TORONTO, ONTARIO - - MONTREAL, QUEBEC  
CALGARY, ALBERTA

## REPORT OF THE DIRECTORS TO THE SHAREHOLDERS FOR THE FISCAL YEAR ENDED DECEMBER 31, 1976

Consolidated earnings per common share before extraordinary items were \$2.34 compared with \$3.01 for the preceding year. Extraordinary items, which have been reported previously, amounted to \$5.16 per share, arising from the sale of our holdings in Hugh Baird & Sons Limited and the expropriation of our Toronto Bathurst Street property. Whereas the proceeds from the expropriation of our Toronto Plant show a profit over the book value of these assets, they do not compensate us for the replacement of similar premises at current costs.

The lower earnings from operations can be attributed to a reduction in the volume of malt shipped which was down 13 per cent from last year and resulted in idle plant capacity with high fixed overhead costs. Most of the loss in sales occurred in export markets where we were unable to compete with European maltsters who received very heavy subsidies on exports to third countries. The high cost of Canadian malting barley together with increasing costs of transportation, labour and services were also contributing factors. Domestic malt shipments were lower because of an unusually cool summer which affected beer sales. These unfavourable operating conditions are reflected in the inadequate return on invested capital experienced during the past year.

Sales and earnings of our subsidiary, Leaver Mushrooms Co. Limited, improved over the previous year and made a significant contribution to consolidated earnings. The addition of new growing facilities at Campbellville is nearing completion and should be in production this spring.

Capital expenditures during the year amounted to \$1,212,026 compared with \$979,441 the preceding year and included a portion of the cost of the addition to the mushroom plant.

It is with regret that we record the death of Mr. Douglas W. Ambridge who was an honorary director of the Company and prior to that appointment, served on the Board for many years. His knowledge and experience will be greatly missed.

The 1976 Western barley crop enjoyed favourable weather conditions throughout the entire growing and harvesting season, resulting in an excellent crop of good quality barley. The outlook for malt sales from this crop is somewhat brighter than a year ago. Domestic sales will however, continue to be influenced by weather and general economic conditions. Export sales to date are ahead of last year, but further improvement will depend to a large extent on the subsidy policies of the Common Market and our raw material and production costs.

Your directors take pleasure in recording their appreciation to all employees of the Company for their loyal cooperation throughout the year.

On behalf of the Directors,

HARRY F. GRAESSER  
President.

**CANADA MALTING CO., LIMITED**  
and subsidiary company

CONSOLIDATED STATEMENT OF EARNINGS

	<u>Year ended December 31</u>	
	<u>1976</u>	<u>1975</u>
Net sales . . . . .	\$106,666,554	\$123,260,865
<b>Costs and expenses:</b>		
Cost of products sold and all expenses except items shown below . . . . .	98,460,055	113,862,600
Interest on long term debt . . . . .	60,000	81,125
Bank and other interest (Note 3) . . . . .	1,619,478	2,500,911
Property rentals . . . . .	669,180	75,981
Provision for depreciation . . . . .	2,106,341	2,069,960
Provision for income taxes . . . . .	1,728,000	2,144,000
	104,643,054	120,734,577
Earnings from operations . . . . .	2,023,500	2,526,288
Dividends received . . . . .	—	64,216
Earnings before minority interest and extraordinary items . . . . .	2,023,500	2,590,504
Minority interest in earnings of subsidiary . . . . .	—	(11,435)
Earnings before extraordinary items . . . . .	2,023,500	2,601,939
Gain on sale of investment in Hugh Baird & Sons Limited . . . . .	841,152	—
Gain on expropriation of property, less estimated income taxes of \$900,000 (Note 2) . . . . .	3,618,124	—
Net earnings for the year . . . . .	\$ 6,482,776	\$ 2,601,939
<b>Net earnings per share:</b>		
Before extraordinary items . . . . .	\$2.34	\$3.01
Extraordinary items . . . . .	5.16	—
	\$7.50	\$3.01

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	<u>Year ended December 31</u>	
	<u>1976</u>	<u>1975</u>
Balance at beginning of year . . . . .	\$22,072,181	\$20,680,065
Net earnings for the year . . . . .	6,482,776	2,601,939
<b>Transfer from excess of appraised value of fixed assets over     depreciated book value on February 28, 1955 of amount     realized on property expropriated . . . . .</b>		
	2,406,238	—
	30,961,195	23,282,004
<b>Deduct:</b>		
Dividends on common shares:		
Class A shares (\$1.40 per share) . . . . .	1,049,001	1,065,078
Class B shares (\$1.19 per share) . . . . .	137,027	123,033
Tax paid on undistributed income . . . . .	24,192	21,712
	1,210,220	1,209,823
Balance at end of year . . . . .	\$29,750,975	\$22,072,181

CANADA MALT

and subs

CONSOLIDATED

## ASSETS

	<u>December 31</u>	
	<u>1976</u>	<u>1975</u>
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 184,094	\$ 355,819
Accounts receivable . . . . .	9,680,469	12,239,460
Inventories —		
Barley and Malt . . . . .	39,006,380	40,530,770
Operating supplies . . . . .	521,604	510,585
Prepaid expenses, including 1977 prepaid rent \$500,826 (Note 2) . . . . .	<u>796,542</u>	<u>207,063</u>
	50,189,089	53,843,697
<b>OTHER ASSETS:</b>		
Prepaid rent January 1, 1978 to October 31 1980 (Note 2) . . . . .	1,419,007	—
Investment in shares of Hugh Baird & Sons Limited . . . . .	—	2,499,484
Commodity Exchange Seats and Membership in Clearing Association, less amounts written off . . . . .	<u>1</u>	<u>1</u>
	1,419,008	2,499,485
<b>FIXED ASSETS:</b>		
Buildings, plant and equipment . . . . .	49,452,951	49,861,277
Less: Accumulated depreciation . . . . .	<u>23,405,218</u>	<u>22,885,071</u>
	26,047,733	26,976,206
Land . . . . .	<u>1,763,844</u>	<u>1,763,844</u>
	27,811,577	28,740,050

Approved by the Board:

HARRY F. GRAESSER, *Director*  
REGINALD J. THOMAS, *Director*

\$79,419,674                  \$85,083,232

**G CO., LIMITED**

Company

**BALANCE SHEET**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<u>December 31</u>	
	<u>1976</u>	<u>1975</u>
<b>CURRENT LIABILITIES:</b>		
Bank advances and bankers' acceptances (Note 4) . . . . .	\$20,841,901	\$28,560,037
Accounts payable and accrued liabilities . . . . .	5,940,521	9,044,107
Long term debt payable within one year . . . . .	100,000	200,000
Taxes on income . . . . .	1,053,409	316,801
	27,935,831	38,120,945
<b>LONG TERM DEBT OF SUBSIDIARY:</b>		
8% first mortgage debentures payable \$100,000 annually 1978 to 1983 . . . . .	600,000	700,000
<b>DEFERRED EXPROPRIATION COMPENSATION (Note 2)</b> . . . . .		
	-	705,000
<b>DEFERRED INCOME TAXES</b> . . . . .		
	3,598,400	3,544,400
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock –		
Authorized –		
Preferred shares of a par value of \$1 each, issuable in series . . . . .	7,761,206 shares	
Common shares without nominal or par value Class A . . . . .	2,000,000 shares	
Class B . . . . .	1,500,000 shares	
Issued and outstanding –		
Common shares (Note 5) Class A . . . . .	747,725 shares	
Class B . . . . .	116,718 shares	
	864,443 shares	5,112,030
Retained earnings (Note 6) . . . . .	29,750,975	5,112,030
	34,863,005	22,072,181
		27,184,211
Excess of appraised value of fixed assets over depreciated book value on February 28, 1955 . . . . .	12,422,438	14,828,676
	47,285,443	42,012,887
	\$79,419,674	\$85,083,232

# CANADA MALTING CO., LIMITED

and subsidiary company

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year ended December 31</u>	
	<u>1976</u>	<u>1975</u>
<b>SOURCE OF WORKING CAPITAL:</b>		
Earnings before extraordinary items . . . . .	\$ 2,023,500	\$ 2,601,939
Non-cash charges deducted in arriving at earnings –		
Provision for depreciation . . . . .	2,106,341	2,069,960
Deferred income taxes . . . . .	54,000	184,100
Amortization of prepaid rent . . . . .	584,297	–
Minority interest . . . . .	–	(11,435)
Funds provided from operations . . . . .	\$ 4,768,138	\$ 4,844,564
Shares issued under employees stock option plan . . . . .	–	12,365
Proceeds on sale of investment in Hugh Baird & Sons Limited . . . . .	3,340,636	–
Additional compensation for expropriated property after adjustments for estimated income taxes and prepaid rent classified as a current asset . . . . .	943,978	–
	<u>\$ 9,052,752</u>	<u>\$ 4,856,929</u>
<b>USE OF WORKING CAPITAL:</b>		
Additions to fixed assets . . . . .	\$ 1,212,026	\$ 979,441
Dividends on common shares . . . . .	1,186,028	1,188,111
Tax paid on undistributed income . . . . .	24,192	21,712
Reduction of long term debt . . . . .	100,000	200,000
Purchase of 40% minority interest in Leaver Mushrooms Co. Limited . . . . .	–	1,196,599
	<u>\$ 2,522,246</u>	<u>\$ 3,585,863</u>
Resulting in an increase in working capital of . . . . .	\$ 6,530,506	\$ 1,271,066
Working capital at beginning of year . . . . .	15,722,752	14,451,686
Working capital at end of year . . . . .	<u>\$22,253,258</u>	<u>\$15,722,752</u>

## FIVE YEAR EARNINGS

	<u>Net Earnings</u>	<u>Earnings per Common Share</u>
1972	2,835,768	3.13*
1973	3,279,485	3.60*†
1974	4,157,741	4.81
1975	2,601,939	3.01
1976	2,023,500	2.34†

\*After providing for dividends on preferred shares.

†Excluding extraordinary item.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 1976**

**1. SUMMARY OF ACCOUNTING POLICIES:**

(a) **Principles of consolidation —**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Leaver Mushrooms Co. Limited.

(b) **Inventories —**

Barley and malt are valued at the lower of cost on a first-in, first-out basis and net realizable value. Operating supplies are valued at cost or less.

(c) **Fixed assets —**

Land, buildings, plant and equipment are stated at 1955 appraised values plus subsequent additions at cost. Depreciation provisions are computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets, principally as follows:

Buildings	2.5% per annum
Machinery and equipment	7.5% - 10.0% per annum
Automotive equipment	15.0% - 25.0% per annum

(d) **Income taxes —**

Deferred income taxes are provided for all significant timing differences in reporting costs and expenses for financial statement and tax purposes. The timing differences arise principally from differences in depreciation provided in the accounts and depreciation deductible for tax purposes.

(e) **Pensions —**

Current service costs are charged to operations as they accrue. Unfunded past service costs, amounting to approximately \$2,147,000 at December 31, 1976 (1975 - \$2,665,000) are being amortized by annual payments through to 1989.

**2. EXPROPRIATION AND LEASEBACK:**

By an Agreement of Settlement dated July 16, 1976 an amount of \$9,252,282 was agreed as compensation for the Toronto Bathurst Street property expropriated by the Federal Government in 1973. Payment of this amount plus interest to July 16, 1976 of \$538,962 has been discharged as follows:

Interim payment in 1973	\$5,405,000
Prepaid rent for five years from November 1, 1975 to October 31, 1980 under the terms of the lease taken back on the property	2,504,130
Balance paid in cash	<u>1,882,114</u>
	<u>\$9,791,244</u>

The excess of the compensation for the expropriated property over its depreciated book value amounted to \$6,491,144, after estimated income taxes of \$1,350,000. Of this amount \$2,873,020, after estimated income taxes of \$450,000, was recorded as an extraordinary gain in 1973 on receipt of the interim payment. The balance of \$3,618,124 after estimated income taxes of \$900,000 has been recorded as an extraordinary gain in 1976. The extraordinary gain recorded in 1976 includes \$705,000 with respect to the 1973 interim payment which had previously been carried forward on the balance sheet as "Deferred expropriation compensation".

Under the terms of the lease taken back on the expropriated property the Company has leased the property from November 1, 1975 to November 30, 1987 with the right to terminate the lease with one year's notice, provided that such termination cannot be effective before October 31, 1980. The Company may also with one year's notice, to take effect at any time after October 31, 1980, require the Lessor to take possession of any part of the leased property with an appropriate adjustment of the rent. The Lessor has the right to terminate the lease with four years' notice provided that such termination cannot be effective before October 31, 1985.

As referred to above, \$2,504,130 of the compensation for the expropriated property has been applied as the rent payable under the lease for the five years from November 1, 1975 to October 31, 1980. The annual rent for the balance of the lease period, November 1, 1980 to November 30, 1987, is \$613,652, payable on a quarterly basis.

**3. BANK AND OTHER INTEREST:**

Interest received in 1976 of \$538,962 on the compensation for the expropriated Toronto Bathurst Street property has been offset against bank and other interest. With the settlement of the expropriation compensation, the prior practice of reporting separately interest income attributable to the 1973 interim compensation payment has been discontinued and, accordingly, the comparative statement of earnings for 1975 has been revised to include such interest with bank and other interest.

**4. BANK ADVANCES AND BANKERS' ACCEPTANCES:**

Bank advances and bankers' acceptances are secured by a general assignment of accounts receivable and a pledge of inventories under Section 88 of the Bank Act.

**5. COMMON SHARES:**

The Employees Stock Option Plan, ratified by shareholders at the Annual Meeting on April 24, 1975, authorized the granting of options on 20,000 Class A common shares at prices not less than 90% of the market price on the day immediately preceding the date of grant. The options are exercisable in instalments during a period of not more than five years from date of grant. During the year ended December 31, 1976 no options were granted or exercised. At December 31, 1976 options to purchase 16,445 shares at \$22.28 per share were outstanding including options for 4,105 shares held by six officers four of whom are directors.

The Class A and Class B shares are inter-convertible on a share-for-share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends but the Directors may elect to declare and pay a dividend on the Class B shares out of tax-paid undistributed surplus on hand, or out of 1971 capital surplus on hand, provided that a cash dividend is declared and paid on the Class A shares in an amount equal to the sum of the cash dividend on the Class B shares plus the tax paid to create the tax-paid undistributed surplus. Changes in the share capital of the Company during the year were as follows:

	Class A	Class B
Shares issued and outstanding at beginning of year. . . . .	754,480	109,963
Class A shares converted into Class B (net) . . . . .	<u>(6,755)</u>	6,755
Shares issued and outstanding at end of year. . . . .	<u>747,725</u>	<u>116,718</u>

**6. RETAINED EARNINGS:**

Retained earnings at December 31, 1976 include \$2,080,646 designated as capital surplus under Section 62 of the Canada Corporations Act, arising from the redemption and cancellation of 1,727,776 Series A preferred shares in 1969 and the purchase and the cancellation of 352,870 Series B preferred shares during 1970 and prior years.

**7. REMUNERATION OF DIRECTORS AND OFFICERS:**

The remuneration of ten directors and one past director amounted to \$23,000 (1975 - \$23,400) and the remuneration of six officers amounted to \$262,896 (1975 - \$220,338 including two officers for only part of the year). Four officers (three in 1975) are also directors of the Company.

**8. ANTI-INFLATION PROGRAM:**

The Company and its subsidiary are subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The Company believes it has complied with the requirements of the Act.

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**AUDITORS' REPORT**

To the Shareholders of  
Canada Malting Co., Limited:

We have examined the consolidated balance sheet of Canada Malting Co., Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario  
February 25, 1977

PRICE WATERHOUSE & CO.  
Chartered Accountants.

# TORONTO PLANT

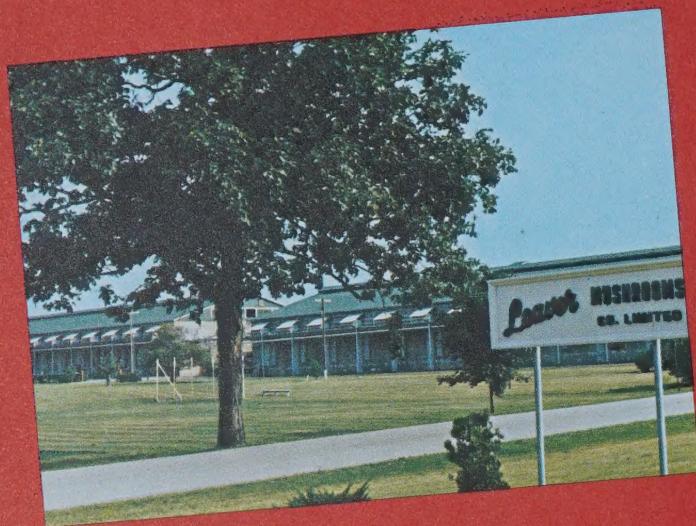
WITH HEAD OFFICE IN FOREGROUND



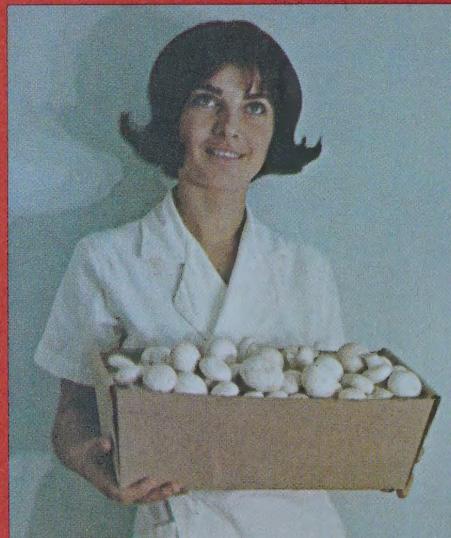
CANADA MALTING CO., LIMITED

# ASK FOR LEAVER . . .

*The Leading Brand of Canadian Mushrooms*



*Better  
Quality*



*Finer  
Flavour*

